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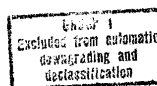
Soviet Oil Offensive on Decline

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Soviet Oil Offensive on Decline*

Summary and Conclusions

Unless the Soviet Union takes action to expand sharply the rate of production of crude oil and/or to reduce allocations of petroleum for domestic consumption, little growth is forecast for Soviet oil exports to non-Bloc countries through 1965. In 1962 the Soviet oil offensive lost much of its momentum as exports to non-Bloc countries (including Cuba) increased by only 4 percent -- to 28 million metric tons** -- largely because of a sharp increase in domestic requirements. Based on the current rate of growth, the output of crude oil in the USSR in 1965 probably will reach not more than 250 million tons, substantially less than the earlier estimate of 265 million tons. With less oil available, but with continued growth in domestic requirements, coupled with the need to meet increasing energy demands in other Bloc countries, any significant upsurge in Soviet oil exports in the next few years generally is precluded.

In 1965 only 34 million tons of petroleum may be available for export from the USSR to non-Bloc countries. Further, because no change is anticipated in the export of petroleum from

* The estimates and conclusions in this memorandum represent the best judgment of this Office as of 22 April 1963.

** Tonnages are given in metric tons throughout this memorandum.

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other Bloc countries (primarily Rumania) to non-Bloc purchasers, total Soviet Bloc petroleum available for export to non-Bloc countries in 1965 may reach only 38 million tons, compared with 32 million tons in 1962.

I. Supply

Continuation of the rate of growth planned for 1963 in the production of crude oil (about 10 percent) 1/* implies a probable level of output in 1965 of not more than 250 million tons, compared with the revised plan goal of 240 million tons. This estimate of output of 250 million tons represents a substantial downward revision of the commonly accepted estimate that production of crude oil in the USSR in 1965 might reach as much as 265 million tons.

Although annual production levels consistently have exceeded plan during the first four years of the Seven Year Plan (1959-65), as illustrated in Table 1, there are a number of problems currently facing the oil industry which effectively preclude any upward deviation from the current rate of growth. Prominent among these problems are failures to provide for concomitant expansion of crude oil production, collection, and treating facilities as well as shortfalls in the commissioning of new refining capacity. For example, in the Tatar

* For serially numbered source references, see Appendix A.

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Table 1

**Planned and Reported Production of Crude Oil in
the USSR, 1959-65**

<u>Million Metric Tons</u>				
<u>Year</u>	<u>Original Seven Year Plan goal</u>	<u>Revised goal</u>	<u>Reported</u>	<u>Original goal overfulfillment</u>
1959	128 <u>a/</u>	128 <u>a/</u>	129.6 <u>b/</u>	1.6
1960	144.2 <u>a/</u>	144 <u>c/</u>	147.9 <u>b/</u>	3.7
1961	161 <u>d/</u>	164 <u>a/</u>	166.1 <u>b/</u>	5.1
1962	181 <u>a/</u>	185 <u>a/</u>	186 <u>f/</u>	5.0
1963	200 <u>g/</u>	205 <u>g/</u>	-	-
1964	<u>h h</u>	<u>h h</u>	-	-
1965	230-240 <u>h/</u>	240 <u>h/</u>	-	-

a. 2/b. 3/c. 4/d. 5/e. 6/f. 7/g. 8/h. 2/**CONFIDENTIAL**

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ASSR, the leading crude oil producing region of the Soviet Union, there has been a general failure to develop new producing areas for expanding the crude oil production base. To offset this deterioration and to guarantee plan fulfillment, it has been necessary to force extraction of crude oil from existing wells, an extremely wasteful and expensive process. 10/ Similar difficulties exist in other major producing areas. As the oil industry of the USSR matures, the easy finds of rich oil fields become more difficult. Those discoveries in Siberia which have been given much publicity recently are in areas remote from transportation facilities and from consuming centers. Other new crude oil, for example on the Mangyshlak Peninsula in western Kazakhstan and in the Caspian Depression in general, is found at relatively great depths and the industry at present lacks the equipment suitable for the exploration and development of such fields.

Failure to develop capacity to refine crude oil in the USSR is apparent not only in the total crude oil charge capacity but also in the inability to produce the required assortment of products in the quantities needed. For the past several years the demand for diesel fuel has exceeded the supply. This shortage now apparently extends to residual fuel oil as well. These two products together represented more than 74 percent of total Soviet exports of petroleum products to

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non-Bloc countries in 1962, and continued shortages, reflecting primarily a lack of proper refining facilities, may prove a restricting factor to increased exports.

II. Demand

The annual growth in domestic demand since 1956 was fairly steady, ranging between 9 million and 11 million tons, thus leaving increasing quantities available for export. In 1962, however, almost 90 percent -- or more than 17 million tons -- of the increase in crude oil availability went to cover the increase in domestic demand, which reached 148 million tons or about 77 percent of the total supply of petroleum.

This relatively sharp growth in domestic demand in 1962 resulted from an attempt by Soviet officials to make up for the unsatisfactory supply of petroleum to domestic consumers in 1961. The export to Cuba of 4 million tons of petroleum in 1961 had placed an unexpected, but politically acceptable, burden on the Soviet oil economy. Deliveries to Cuba probably were made possible only through a reduction in both inventories and in the supply of petroleum to domestic consumers. Reports of local shortages of petroleum were particularly frequent in 1961. The tight domestic availability of petroleum could have been alleviated by restricting the sale of petroleum to those non-Bloc countries with which the USSR had outstanding trade commitments. Such

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action was not taken however, for violation of existing contracts would have validated the argument, frequently advanced by certain Western observers, that the USSR was not a dependable source of supply and, further, would have placed in jeopardy future trade expansion not only in petroleum but in other commodities as well.

In planning petroleum allocations for 1962, Soviet officials were able to consider in advance the needs of Cuba,* the necessity for restoring allocations to domestic consumers, and the increased demand in the European Satellites. Virtually all of the available increment in petroleum planned for 1962 was obligated to meeting such demands. Even with advance planning there were serious problems in meeting demand in 1962. Apparently with more petroleum available than normally called for, domestic consumers began to use fuels and lubricants at rates considerably in excess of established norms. As a result, in June, 1962, Soviet planners were forced to call for a 2 percent reduction in domestic consumption in order that export demands for that year could be met. 11/

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- * Should the USSR for any reason be relieved of the necessity of meeting Cuban requirements for petroleum, an additional 4.5 million tons of crude oil and petroleum products could be released for sale to other non-Block countries.

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Major deviations in the growth in domestic demand for petroleum through 1965 are unlikely, unless the USSR again assumes an immediate role as major supplier in any new market.* The replacement of coal by crude oil in the domestic energy balance at a rate in excess of that called for by the Seven Year Plan (Table 2), coupled with below plan output of natural gas, indicates a continued high rate of growth in domestic demand for petroleum. Indigenous demand for petroleum in 1965 -- about 197 million tons -- may again, as in 1962, correspond to 77 percent of total supply of petroleum in the USSR.

III. Export Availability Through 1965

The supply and demand for petroleum in the USSR in 1962 and that estimated for 1965 is summarized in Table 3. As noted, in 1962 a total of 26 million tons of petroleum was exported by the USSR to non-Elec countries -- *representing* a gain of only 4 percent compared with exports in the preceding year. By 1965 only 34 million tons may

* The ability of the USSR to take such action would be determined normally by the quantity of petroleum involved; however, that the USSR might agree to do in situations of high political significance is, as always, difficult to predict. The USSR could, without apparent difficulty, assume the responsibility of supplying the needs of Ceylon, for example, where the annual demand for petroleum is about 1 million tons. Conversely, it would be difficult for the USSR to consider the supplying of more than 3 to 4 million tons of petroleum to any new market. To do so probably would require severe restrictions on domestic consumption and the abrogation of certain existing trade contracts.

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Table 2

Coal, Crude Oil and Natural Gas Production
Relationships in the USSR, 1965

<u>Source of Energy</u>	<u>Goal a/</u>		<u>Estimate of Probable Output</u>	
	<u>Million Metric Tons of Standard Fuel*</u>	<u>Percent of Total</u>	<u>Million Metric Tons of Standard Fuel*</u>	<u>Percent of Total</u>
Coal	459 b/	46.7	405 c/	43.8
Crude oil	343 d/	34.9	358 e/	38.7
Natural gas	180 f/	18.3	162 g/	17.5
Total	<u>982</u>	<u>100.0</u>	<u>925</u>	<u>100.0</u>

* Standard fuel has a heat value of 7,000 kilocalories per kilogram.

a. 12/

b. Based on a production of 612 million tons, converted to standard fuel using the factor of 0.75 tons of coal per ton of standard fuel.

c. Based on a production of 540 million tons, converted to standard fuel using the factor of 0.75 tons of coal per ton of standard fuel.

d. Based on a production of 240 million tons, converted to standard fuel using the factor of 1.43 tons of standard fuel per ton of crude oil.

e. Based on a production of 250 million tons, converted to standard fuel using the factor of 1.43 tons of standard fuel per ton of crude oil.

f. Based on a production of 150 billion cubic meters, converted to standard fuel using the factor of 1.2 tons of standard fuel per 1,000 cubic meters.

g. Based on a production of 135 billion cubic meters, converted to standard fuel using the factor of 1.2 tons of standard fuel per 1,000 cubic meters.

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Table 3

Petroleum Supply and Demand in the USSR
1962 and 1965

	Million Metric Tons	
<u>Supply</u>	<u>1962</u>	<u>1965</u>
Production of crude oil	186 a/	250 b/
Production of synthetics and natural gas liquids	2 b/	3 b/
Imports	3 b/	3 b/
Total supply	<u>191</u>	<u>256</u>
<u>Demand</u>		
Domestic demand	148 c/	197 d/
Exports		
To other Bloc countries	15 e/	25 b/f/
To non-Bloc countries	28 e/	34 b/
Total exports	<u>43 e/</u>	<u>59 c/</u>
Total demand	<u>191</u>	<u>256</u>

*increase of
10 to 15
year*

- a. 13/
 b. Estimated.
 c. Derived as a residual.
 d. 14/
 e. 15/
 f. Of this quantity, about 20 million tons may be delivered to the European Satellites (15 million tons by the CEPA crude oil pipeline, 4 million tons by sea and 1 million tons overland) and 5 million tons to Communist China. The estimate for delivery to Communist China should be regarded as a probable maximum. Any reduction in this quantity would, of course, increase that amount available for export to non-Bloc countries.

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be available for export from the USSR to non-Bloc countries.

The implied average annual rate of growth in Soviet oil exports to non-Bloc countries of less than 7 percent through 1965 represents a sharp departure from the past pattern of development. During 1955-61 exports of petroleum from the USSR to non-Bloc countries increased by an average annual rate of about 37 percent -- from about 4 million tons to 26.9 million tons.* The rapid emergence of the USSR as an exporter of petroleum caused wide concern in international oil circles although Soviet oil trade has represented only 3 to 4 percent of non-Bloc demand. By 1965 Soviet oil as a share of non-Bloc demand probably will be less than 3 percent.

Further, because no change is anticipated in the export of petroleum from other Bloc countries (primarily Rumania) to non-Bloc purchasers, total Soviet Bloc petroleum available for export to non-Bloc countries in 1965 may reach only 33 million tons, compared with 32 million tons in 1962.

* Total Soviet Bloc exports to non-Bloc countries, including Cuba, grew at an average annual rate of about 30 percent during 1955-61, from 5.4 million tons to 30.5 million tons. As a share of total Bloc exports, those from the USSR have increased from 74 percent in 1955 to 88 percent during 1961-62.

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Evaluations, following the classification entry and designated "Eval.," have the following significance:

<u>Source of Information</u>	<u>Information</u>
Doc. - Documentary	1 - Confirmed by other sources
A - Completely reliable	2 - Probably true
B - Usually reliable	3 - Possibly true
C - Fairly reliable	4 - Doubtful
D - Not usually reliable	5 - Probably false
E - Not reliable	6 - Cannot be judged
F - Cannot be judged	

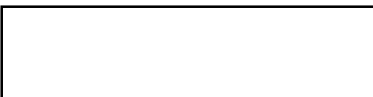
"Documentary" refers to original documents of foreign governments and organizations; copies or translations of such documents by a staff officer; or information extracted from such documents by a staff officer, all of which may carry the field evaluation "Documentary."

Evaluations not otherwise designated are those appearing on the cited document; those designated "RR" are by the author of this report. No "RR" evaluation is given when the author agrees with the evaluation on the cited document.

Except for CIA finished intelligence, all sources used in this report are evaluated RR 2 unless otherwise indicated.

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